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IN THIS ISSUE:

Declining Manufacturing Employment In Japan .... 1

Supplementary Budget Faces Rough Seas ..... 4

Nakasone's Task: Focus On Policies ..... 5

Foreign Direct Investment In Japan Dips In FY 1986 ..... 6

Senate Nears Completion On Trade Bill ..... 8

Notes: Dollar Rises To Y150 ..... 10

## Declining Manufacturing Employment In Japan

One of the most remarkable features of Japan's economy in the postwar era has been its success in avoiding the unemployment problems that have plagued other countries. In 1986 unemployment was less than half the U.S. rate and one-fourth of Britain's (see Table 1). Although it is sometimes asserted that differences in measuring unemployment account for much of the disparity, careful analyses have shown that this is not the case. A calculation of Japan's unemployment rate using the U.S. definition only raises it by 0.2 percentage point at most, according to the Bank of Tokyo. This conclusion agrees with a 1984 study by the U.S. Department of Labor.

The impact of the strong yen on exports and corporate profits, though, has brought the unemployment rate up from 3 percent in April to a record 3.2 percent in May. In addition, the number of overtime hours worked in the manufacturing sector has fallen substantially below year-earlier levels. The worsening employment situation threatens to restrain workers' income gains -- a

major factor in consumer spending. Given the probable decline in export volume, steady growth in consumer spending is necessary to achieve the government's 3.5 percent real growth outlook for FY 1987.

Table 1: International Comparison of Unemployment Rates

(percent of labor force, seasonally adjusted)

| | 1985 | 1986 | January-March 1987 |
|---|---|---|---|
| Japan | 2.6% | 2.8% | 2.9% |
| United States* | 7.1 | 6.9 | 6.6 |
| West Germany | 9.3 | 9.0 | 8.8 |
| France | 10.1 | 10.5 | 10.9 |
| Britain | 11.3 | 11.6 | 11.1 |

*Including armed forces.

Source: Tokyo Financial Review, June 1987.

Given Japanese manufacturers' continued emphasis on increasing overseas production, the service sector appears to be the key to providing jobs. Employment in the non-manufacturing sector did expand by 690,000 in 1986 in contrast to the loss of 90,000 jobs in the manufacturing sector and 140,000 in agriculture (see Table 2). But with the labor force growing by about 600,000 people annually, the growth in nonmanfacturing jobs will have to accelerate to provide work for both new workers and those who have lost jobs in other sectors.

The decline in manufacturing sector employment is expected to accelerate in coming years. In line with the lifetime employment system (which covers about 30 percent of Japanese workers), manufacturing firms in late 1986 had over 1 million redundant workers on the payroll, according to a recent Bank of Tokyo study. Faced with the continued competitive pressure posed by the high yen, these firms are likely to take more drastic measures to reduce labor costs. The Ministry of Labor recently predicted that 2.2 million jobs in the manufacturing sector will be lost during the next six years, partly as a result of increased production overseas. The report urged management to consult with labor before deciding to move abroad. A study by Sumitomo Bank estimated that manufacturing employment will decline by 1.35 million by 1990, boosting the unemployment rate to 5.6 percent.

While this adjustment will be painful for segments of Japan's economy, it is similar to trends in other advanced countries such as the United States. While manufacturing's share of U.S. gross national product has remained roughly

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Table 2: Changes in Japan's Labor Force

(thousands of workers; percentage change from year-earlier figure)

| | Agriculture, Forestry & Fishing | Percent Change | Manufacturing | Percent Change | Nonmanufacturing* | Percent Change |
|---|---|---|---|---|---|---|
| 1980 | 5,770 | -5.9% | 13,670 | 2.6% | 35,920 | 1.6% |
| 1981 | 5,570 | -3.5 | 13,850 | 1.3 | 36,390 | 1.3 |
| 1982 | 5,480 | -1.6 | 13,800 | -0.4 | 37,100 | 2.0 |
| 1983 | 5,310 | -3.1 | 14,060 | 1.9 | 37,950 | 2.3 |
| 1984 | 5,120 | -3.6 | 14,380 | 2.3 | 38,170 | 0.6 |
| 1985 | 5,090 | -0.6 | 14,530 | 1.0 | 38,540 | 0.7 |
| 1986 | 4,950 | -2.8 | 14,440 | -0.6 | 39,140 | 1.8 |
| 1987 January | 3,920 | 0.2 | 14,300 | -2.6 | 38,930 | 1.6 |
| February | 3,870 | 0.8 | 14,220 | -2.9 | 38,940 | 1.4 |
| March | 4,250 | -0.7 | 14,190 | -1.9 | 39,540 | 2.0 |
| April | 5,090 | -3.6 | 14,070 | -3.6 | 40,140 | 3.0 |

*Includes services, mining, construction, utilities, transportation, communications, wholesale and retail trade, finance, insurance, real estate and government workers.

Source: Management and Coordination Agency.

Table 3: Manufacturing Employment in Japan and the United States

(thousands of workers and share of labor force)

| | Japan | | United States | |
|---|---|---|---|---|
| | Manufacturing Employment | Share | Manufacturing Employment | Share |
| 1955 | 7,570 | 18.0% | 16,882 | 26.0% |
| 1960 | 9,460 | 21.0 | 16,796 | 24.1 |
| 1965 | 11,500 | 24.0 | 18,062 | 24.3 |
| 1970 | 13,770 | 26.7 | 19,367 | 23.4 |
| 1975 | 13,460 | 25.3 | 18,323 | 19.5 |
| 1980 | 13,670 | 24.2 | 20,285 | 19.0 |
| 1981 | 13,850 | 24.3 | 20,170 | 18.6 |
| 1982 | 13,800 | 23.9 | 18,781 | 17.0 |
| 1983 | 14,060 | 23.9 | 18,434 | 16.5 |
| 1984 | 14,380 | 24.3 | 19,378 | 17.1 |
| 1985 | 14,530 | 24.4 | 19,314 | 16.7 |
| 1986 | 14,440 | 24.0 | 19,187 | 16.3 |

Source: U.S. Deparment of Labor and Japan, Management and Coordination Agency.

constant at about 20 percent, increased labor productivity has allowed its share of the labor force to drop from 26 percent in 1955 to 16.3 percent in 1986 (see Table 3). Although Japan experienced a similar shift beginning after the first oil shock, the trend was reversed in 1983 as a surge in exports resulted in an increase in both the absolute level and the share of the labor force employed in manufacturing. The expected decline in Japan's trade surplus in coming years should increase the share of the labor force employed in the service sector.

Randall S. Jones

Supplementary Budget Faces Rough Seas

Two components of the Y2.08 trillion ($14.9 billion at Y140=$1.00) supplementary budget occasioned tough exchanges between Prime Minister Yasuhiro Nakasone and opposition party members during the first stage of the Diet process: the government's plan to modify the maruyu tax-exempt savings system and overall fiscal policy. After the defeat of Mr. Nakasone's plan to impose a 5 percent value-added tax during the regular Diet session earlier this year, it is unclear if the supplementary budget will emerge from the special Diet session unscathed.

During June 8, the first day of preliminary questioning in the Diet, the prime minister ran into unexpectedly harsh criticism about his plan to abolish the maruyu system. Although resistance was expected, the opposition hinted that it may boycott the special session if changes are not made. Mr. Nakasone took a decidedly softer stance during the next day's questioning, claiming that he intends to modify, not abolish, the popular tax break and retain the tax-free feature for the poor, handicapped, senior citizens and widows, a group numbering up to 20 million. All others would face a flat tax on interest income. Opposition reaction to this proposal was negative, but less strident than before. Mr. Nakasone argued that while funds from sources other than taxes and bond issues will be available for the next few years (proceeds from the sale of government-held shares of Nippon Telegraph and Telephone Corp., for example), the government must establish new revenue sources to balance the budget over the long term.

Other aspects of the government's fiscal policy also came under fire from opposition leaders, despite a sputtering economy and intense international pressure for fiscal action. The opposition parties have traditionally sought to build voter support by pushing for tax cuts. The Y1 trillion personal income tax cut originally outlined in the supplementary budget has already been raised by the government to Y1.4 trillion in an effort to pre-empt this issue. Nevertheless, the opposition is demanding that an even greater amount be budgeted, pointing to FY 1986's windfall revenues from taxes and other sources (see JEI Report No. 25B, July 2, 1987).

Government plans to adjust food price supports and programs for small businesses also drew pointed questions. Mr. Nakasone was forced to promise that agricultural import controls and food price support programs would remain in place despite international pressures for their removal. How this squares with Japan's position on the new round of multilateral trade negotiations is

party vice president Susumu Nikaido has declared his candidacy and has introduced a rough draft of his personal platform but is unlikely to pose a serious challenge. Political pundits suggest that Mr. Takeshita will be able to lock up the title by the end of the current Diet session, with support from the factions of Mr. Abe and Toshio Komoto. Mr. Nakasone's most difficult task during the coming weeks will be to persuade lawmakers to put passage of the government's programs ahead of factional interests.

Michael W. Chinworth

Foreign Direct Investment In Japan Dips In FY 1986

According to recently released Ministry of Finance figures, foreign direct investment in Japan declined slightly in fiscal 1986, probably due to the yen's appreciation. The United States remained the leading investor, accounting for 52 percent of the year's total value. Affiliates of foreign companies significantly raised their capital investments, perhaps indicating a shift toward their increased use of domestic funds. Investment in manufacturing facilities declined sharply in reaction to the recession induced by the high yen. On the other hand, the volume of funds pouring into the nonmanufacturing sector continued to increase.

In the year through March 1987, MOF was notified by foreign firms of 3,079 investments worth $940 million. After a very sharp upturn between FY 1981 and FY 1984 when the number of investments rose from 919 to 3,685, the trend has been declining -- down 9.9 percent in fiscal 1985 and 9.1 percent last year.

Despite a 6.9 percent drop in the number of investments, the United States actually increased its share of the total value of foreign direct investment in FY 1986 (see Table), thanks to a 18.2 percent jump in value. Switzerland, the number-two investor, recorded 1.8 percent fewer investments worth more money (up 3.5 percent). Affiliates of foreign firms ranked just behind the Swiss, accounting for 305 cases (up 54 percent) worth $85 million (up 73.5 percent). West Germany also showed sizable increases in volume (37.7 percent) as well as in value (88 percent). The United Kingdom, France and the Netherlands all registered sharp declines in value and sometimes volume.

In the competition to attract foreign investment, manufacturing retained its lead over nonmanufacturing, if only narrowly -- its edge shrinking to 57 cases and $52 million, compared with margins of 686 cases and $371 million the previous year. A foreign retreat from investments in the machinery industry is the primary reason for the decline in manufacturing, with the volume of investments off here by 35.2 percent and the value down 42.1 percent. In comparison overall investment in nonmanufacturing was up 62.5 percent in value and 13 percent in volume. There were huge leaps in the value of investments in communications (1,650 percent), construction (766.7 percent) and real estate (614.3 percent).

It is likely that nonmanufacturing will receive the majority of foreign investors' funds in the future for two reasons: deregulation of financial markets and other services is proceeding apace; and the center of economic activity is moving away from industry toward the service sector. Nevertheless, a

## Foreign Direct Investment in Japan by Country, FY 1985-FY 1986

(in number of cases, millions of dollars and percent of total value)

| | FY 1985 | | | FY 1986 | | | Total March 31, 1987 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cases | Value | Share | Cases | Value | Share | Cases | Value | Share |
| United States | 525 | $413 | 44.4% | 489 | $488 | 51.9% | 5,574 | $3,407 | 48.6% |
| Canada | 71 | 13 | 1.4 | 88 | 2 | 0.3 | 373 | 126 | 1.8 |
| United Kingdom | 381 | 61 | 6.6 | 310 | 35 | 3.7 | 1,913 | 353 | 5.0 |
| West Germany | 130 | 25 | 2.7 | 179 | 47 | 5.0 | 1,186 | 297 | 4.2 |
| France | 244 | 22 | 2.4 | 173 | 17 | 1.8 | 1,199 | 152 | 2.2 |
| Switzerland | 224 | 86 | 9.2 | 220 | 89 | 9.5 | 1,248 | 447 | 6.4 |
| Netherlands | 189 | 108 | 11.6 | 179 | 19 | 2.0 | 763 | 182 | 2.6 |
| Other Europe | 200 | 32 | 3.4 | 170 | 28 | 3.0 | 1,205 | 206 | 2.9 |
| Hong Kong | 477 | 39 | 4.2 | 341 | 57 | 6.1 | 2,801 | 288 | 4.1 |
| Japan* | 198 | 49 | 5.3 | 305 | 85 | 9.0 | 2,276 | 1,121 | 16.0 |
| Other | 731 | 83 | 8.9 | 625 | 74 | 7.9 | 4,674 | 428 | 6.1 |
| Total | 3,370 | 930 | 100.0 | 3,079 | 940 | 100.0 | 23,212 | 7,007 | 100.0 |

*Investments by Japanese firms with significant foreign participation.

## Foreign Direct Investment in Japan by Industry, FY 1985-FY 1986

| | FY 1985 | | | FY 1986 | | | Total March 31, 1987 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cases | Value | Share | Cases | Value | Share | Cases | Value | Share |
| Manufacturing | 2,028 | $650 | 69.9% | 1,563 | $495 | 52.7% | 11,420 | $4,977 | 71.0% |
| Food | 136 | 27 | 2.9 | 159 | 4 | 0.5 | 738 | 162 | 2.3 |
| Textiles | 0 | 0 | 0 | 31 | 19 | 2.5 | 139 | 50 | 0.7 |
| Rubber and Leather | 28 | 4 | 0.4 | 3 | 9 | 1.0 | 82 | 37 | 0.5 |
| Chemicals | 226 | 165 | 17.7 | 139 | 169 | 18.0 | 1,667 | 1,709 | 24.4 |
| Petroleum | 16 | 2 | 0.2 | 38 | 16 | 2.1 | 370 | 622 | 8.9 |
| Nonmetallic Mineral Products | 8 | 2 | 0.2 | 51 | 7 | 0.9 | 287 | 121 | 1.7 |
| Metals | 53 | 10 | 1.1 | 88 | 5 | 0.7 | 583 | 413 | 5.9 |
| Machinery | 1,288 | 404 | 43.4 | 834 | 232 | 24.7 | 6,367 | 1,626 | 23.2 |
| Other | 273 | 36 | 3.9 | 120 | 34 | 3.6 | 1,187 | 237 | 3.4 |
| Nonmanufacturing | 1,342 | 279 | 30.0 | 1,516 | 443 | 47.1 | 11,792 | 2,028 | 28.9 |
| Construction | 82 | 3 | 0.3 | 90 | 26 | 2.8 | 507 | 58 | 0.8 |
| Real Estate | 64 | 7 | 0.8 | 24 | 50 | 5.3 | | | |
| Commerce | 660 | 86 | 9.2 | 590 | 130 | 13.8 | 6,793 | 887 | 12.7 |
| Services | 284 | 42 | 4.5 | 467 | 47 | 5.0 | 2,917 | 312 | 4.5 |
| Transportation | 28 | 16 | 1.7 | 31 | 12 | 1.3 | 209 | 58 | 0.8 |
| Communications | 6 | 2 | 0.2 | 13 | 35 | 3.7 | | | |
| Banking and Insurance | 19 | 89 | 9.6 | 92 | 87 | 9.3 | 1,366 | 713 | 10.2 |
| Other | 199 | 34 | 3.7 | 209 | 56 | 6.0 | | | |
| Total | 3,370 | 930 | 100.0 | 3,079 | 940 | 100.0 | 23,212 | 7,007 | 100.0 |

Source: Ministry of Finance.

truly major shift will have to take place if the nonmanufacturing sector is to overcome the manufacturing sector's lead in terms of the cumulative value of investments.

Jon Choy

Senate Nears Completion On Trade Bill

The Senate narrowly missed the July 14 target that Majority Leader Robert Byrd (D, W.Va.) set for completing action on S 1420, the omnibus trade bill. Since this marks the second time that the chamber failed to meet a deadline -- the original target was July 4 -- it raises some question about the West Virginia senator's ability to lead effectively. Still, most of the work was finished by July 14, including nearly all of the controversial amendments. Some measures that qualify as "veto bait" were adopted, while moderate and hard-line senators struck compromises on others.

One of the most important concerns mandatory actions against countries that engage in a pattern of unfair trade practices. Few senators supported the House-passed Gephardt amendment, which requires reductions in the trade surpluses of countries that persist in their allegedly unfair trade practices. Rather, attention focused on a proposal by Donald Riegle (D, Mich.) and John Danforth (R, Mo.) -- two hard-liners in trade matters -- who hammered out an amendment designed to gain a consensus in the chamber. The amendment, which was sponsored by leaders on both sides of the aisle, sailed through the chamber by a vote of 87-7.

The compromise requires the U.S. Trade Representative to identify countries that consistently maintain trade barriers and record the dollar value of those barriers. The president is required to initiate what Sen. Byrd labeled a "super 301" case against the offending countries (under Section 301 of the 1974 Trade Act). If negotiations fail to eliminate the barriers or bring about an increase in U.S. exports equivalent to the value of the barriers, the White House would be required to retaliate unless (1) the General Agreement on Tariffs and Trade ruled against the United States; (2) an agreement was reached that was acceptable to the majority of the industry of the petitioner; (3) retaliation would cause serious harm to national security; or (4) as a last resort, the U.S. Trade Representative certified that it would be impossible for the country to eliminate the practice and it would provide full compensation. Moreover, the committees on Finance and Ways and Means would have the authority to identify "consistent pattern" countries.

The Danforth-Riegle compromise was considerably more moderate than many had expected. Previously, Sen. Riegle said he intended to introduce a variation of the Gephardt amendment. During the floor debate, however, leaders were adamant that the Senate proposal should not be identified with the provision in the House bill in any way. Sen. Byrd, for example, stressed that "to those who call this the son of Gephardt or just the Gephardt, they should not do that because they are misleading people if they do." He also asked that "everyone take a careful look at this amendment and not denominate it a protectionist amendment, not denominate it as an amendment by someone else in the House of Representatives." Still, observers continue to compare the Senate proposal